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SUBJECT: FINANCIAL CRISIS HITS SALES, TAX COLLECTIONS, BUDGET

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SUMMARY

1. The ongoing global financial crisis has affected many businesses in Armenia, according to GOAM statistics for the first two months of 2009. Total sales revenues, import/export volumes and corporate tax payments for the country's largest taxpaying entities have all declined from their 2008 levels. While the GOAM has not yet produced data for all major taxpayers, it is likely that even the country's well-connected oligarchs are suffering the effects of this crisis. End Summary.

SALES REVENUES DOWN

2. On April 20 the State Revenue Service of Armenia released a report highlighting a selected range of income and tax statistics for January-February 2009. The figures showed declines in all categories, including sales revenues, imports and exports, and tax collections. According to the data, total sales revenues for the 325 largest taxpayers from 2008 declined by 10.7 percent compared to February 2008, amounting to AMD 117.5 billion (USD 315 million at the current exchange rate).

3. The GOAM report released data only for selected companies, so a complete analysis is not possible at this time. However, sales revenues of the companies that ranked second, fourth and ninth on the 2008 list--the natural gas distributor ArmRosGazprom, Zangazur Copper and Molybdenum Plant and Armenian Electrical Networks--declined by 39.7 percent compared to January-February 2008 (Note: The State Revenue Service highlighted these three firms in its report. While it noted that revenues declined at all three, it did not break down the amounts. Gas and electricity consumption likely declined year-on-year due to reduced economic activity resulting from the global financial crisis. The mining sector has nearly shut down due to a fall in global metals prices. End Note).

IMPORTS AND EXPORTS DOWN

4. Imports by the largest taxpayers declined by 30.3 percent in the first two months of 2009--compared to the same period in 2008--to AMD 68 billion (USD 182.4 million). The combined import figures of the three largest importers of 2008--ArmRosGazprom, mobile phone service provider K-Telecom (dba Vivacell) and Flash (one of two large fuel importing companies), declined by 26.3 percent. Exports also plunged sharply in February, 37.3 percent below those of February 2008. Export volumes of the three largest exporting companies (all metals-related)--Pure Iron Plant, Armenian Molybdenum Production, Rusal-Armenal (foil production)--were down by 65.4 percent year-on-year.

DECLINING TAX REVENUES FORCE BUDGET CUTS

15. The GOAM's tax revenues dropped significantly in January-February 2009, widening the budget deficit to the highest level in years and forcing the GOAM to defer nearly fifteen percent of the year's budget to the fourth quarter, when it hopes to apply credits from the World Bank and Russia to budget support. In February, the largest 325 companies accounted for 39.3 percent of total tax collections and paid AMD 10.7 billion (USD 28.7 million) in various taxes, 32.1 percent less than in February 2008. Overall, profit tax payments were down by 49.5 percent, VAT by 38.2 percent and the excise tax by 47.4 percent.

16. The 2009 budget originally envisaged a 15 percent increase in government expenditures to 945.5 billion drams (USD 2.6 billion), with a 16.7 percent increase in budget revenues. According to the Ministry of Finance, overall budget revenues for January-February 2009 were 14.6 percent (AMD 84.6 billion or USD 227 million) less than during the same period in 2008. Despite the plunging revenues, the Finance Ministry reported a 5.3 percent year-on-year increase in budget expenditures in January-February, as a result of which the budget deficit amounted to AMD 14.3 billion (USD 38 million), or 5.1 percent of GDP. During the same period in 2008 the GOAM had a budget surplus equivalent to 1.8 percent of GDP. In response to the worsening economic situation in the country, the GOAM made a decision in March to defer AMD 93 billion in expenditures (USD 250 million) to the fourth quarter (reftel).

COMMENT

17. As the data do not break down all the individual firms on the list of largest taxpayers, it is not possible to determine just how

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every business has been affected. It is clear that energy firm revenues will have declined due to reduced economic activity, and the decline of the metals industry would have a significant impact on export figures, as metals typically account for nearly 40 percent of Armenia's exports. Many of the largest companies enjoy a privileged position due to high-level connections and protected markets; while some may have reported a drop in business activity, they will likely recover as the overall economic situation improves.

Small and medium sized businesses, which operate on less of a cushion, may be more vulnerable. In addition to the overall economic meltdown and decreased demand, many of them are also vulnerable to targeting by the tax authorities attempting to boost collections by any means possible. End Comment.

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